NATIONAL GUARD BUREAU
OFFICE OF THE CHIEF COUNS

Performance Based Service Contracting

A One Hour Primer

By

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WHAT DOES PBSC MEAN?

- FAR 2.101
- Contracting for Outcomes
- Structuring all aspects of an acquisition around the purpose of the work to be performed
- Set forth contract requirements in clear, specific, objective terms with measurable outcomes

PBSC? WHY?

- OMB Memorandum M-01-15 directed that by FY05, 50% of all federal dollars used to purchase services be PBSC-type contracts
- OFPP Policy Letter 91-2, Service Contracting established PBSC as a strategy for acquiring services
- DFARS 237.170 100% of service contracts awarded by DoD must be PBSC

OFPP REQUIREMENTS FAR 37.601

- Performance requirements defining the work in measurable, mission-related terms
- Performance standards tied to performance requirements (quality, quantity, timeliness)
- Government quality assurance plan
- Positive and/or negative incentives

FEDERAL GOVERNMENT HAS ABYSMAL TRACK RECORD IN SERVICE CONTRACTS

- Poorly defined work statements
- Contract administration problems
- Cost overruns
- Performance problems and delays
- Lack incentives for innovation
- Devolve into contracts for terms of employment
- Personal services

BENEFITS OF PBSC

Higher quality performance
Improved customer satisfaction
Encourage contractor innovations
Better business relations with industry
Implement goals of acquisition reform
Foster Best Value selection approaches
Encourage use of firm-fixed price contracts

CHALLENGES OF PBSC

- Most agencies not familiar w/ concept
- Current contracts are not PBSC
- Source Selection and Award may be more difficult
- It is not “the way we have always done it”

TYPES OF PERFORMANCE-BASED SERVICES

- Aircraft maintenance
- Administrative support
- IT and telecom services
- Medical services
- Training
- Call center services
- Research and development

ELEMENTS OF PBSC

Performance Work Statement (PWS)

- Task to be performed
- Performance standard
- Acceptable quality level (AQL)

Quality Assurance Plan (QAP)

- Surveillance method and measure
- Incentive

Performance Requirements Summary or PRS

WHERE TO START?
JOB ANALYSIS

- What does the agency want to achieve in terms of outcomes and deliverables?
- What resources are required to produce the desired outcome?
- What is the workload, frequency, and quantity of desired work?
- What are the standards by which the government will accept the work?

JOB ANALYSIS

Job Analysis consists of the following:

- Work Analysis – Identify objects, tasks, deliverables
- Performance Analysis – Identify performance standards, AQLs, incentives
- Evaluation Analysis – Determine surveillance methods, performance measures
- Cost Estimate – Estimate costs of work to be performed

WORK ANALYSIS

1. Develop scope statement
2. List tasks to be performed
3. Group tasks
4. Organize tasks
5. Identify relationships among tasks
6. Identify data requirements
7. Identify government-furnished property

WORK ANALYSIS: STEPS 1 & 2

Step 1: Define the magnitude of the work to be performed.

Step 2: Identify all tasks that may be required.

- Focus on *what* is required, not *how* to do it
- Construct a "*do-what*" list
  - Two word outline
  - Verb-noun: dispatch vehicles, maintain TMP fleet

WORK ANALYSIS: STEP 3

Group Tasks

- Identify major tasks and their subtasks
- Group similar and related requirements, listing the subtasks
- Add new tasks identified by the PBSC team to the outline
- Depending on the complexity of the requirement, you may need to identify tasks to a third level (task within subtasks)

WORK ANALYSIS: STEP 4

Organize tasks

- Arrange tasks and subtasks in a logical sequence, i.e., chronological, discipline, area of responsibility
- Ensure all tasks necessary for successful performance are identified
- Eliminate repetitive or unnecessary tasks

WORK ANALYSIS: STEP 5

Identify Relationships Among Tasks

- Develop a Work Breakdown Statement (WBS) and/or a tree diagram to provide a planning framework
  - Degree of flexibility and innovation needed will dictate the number of task levels
  - Tree diagram (supplies) provides a breakdown of hardware items
  - Tree diagram (services) provides a breakdown of tasks by category

WORK BREAKDOWN STATEMENT

The WBS provides prospective offerors with a framework for understanding the work and estimating resource requirements.

- Identify the phases of the work.
- Identify all activities that must be completed in each phase.
- Break each activity into component tasks, subtasks (if applicable).

WORK ANALYSIS: STEP 6

Identify Data Requirements

- What data must the contractor submit in performing the contract?
  - Reports, software, other deliverables

  Limit requirements to data essential to –
  - Managing and monitoring the contract
  - Achieving contract objectives

  Associate each data requirement with a task.

WORK ANALYSIS: STEP 7

Identify Government-Furnished Property

Determine whether the Gov't will need to furnish any property

- What?
- How much?
- What is its control number?
- What is its estimated value?

PERFORMANCE ANALYSIS

1. Develop performance standards
2. Determine acceptable quality levels (AQLs)
3. Identify incentives/penalties
4. Create performance requirements summary (PRS)

PERFORMANCE ANALYSIS: STEP 1

Establish performance standards for each deliverable or task

- Quantity, quality
- Timeliness, format

Standards may be absolute or tolerant

Standards may be subjective or objective

Modify your WBS to provide acceptance criteria

Performance Standards Checklist

Are they –

- Aligned with the overall scope of the requirement
- Focused on performance results
- Measurable
- Economical to apply
- Attainable
- Objective
  - Can be measured
  - Nonjudgmental

Performance Analysis: Step 2

Determine AQLs

- For each standard, determine the acceptable performance variation
- Set procedures for applying a penalty if performance variation exceeds the limit set
- Establish the value of the task to total contract
- Consider cost and quality tradeoffs
- Note: The higher the AQL, the higher the cost

Performance Analysis: Step 3

Identify your incentives/penalties

- Incentives are optional
- Incentives may be monetary or nonmonetary
- Incentives may be positive or negative
- Incentives may be applied to:
  - Cost control
  - Performance
  - Delivery or schedule
  - Management

Applying the Incentives

Incentives should represent the value of the service lost or achieved.

- What is the effect of nonperformance?
- What is the reward for good performance?
- What is the penalty for bad performance?

Profit or fee should be based on the amount of risk the contractor must incur

The desired performance will come at its price

Performance Analysis: Step 4

Create a Performance Requirements Summary (PRS) – The Schwerpunkt!

- Begin to summarize the job analysis in the PRS
- Put it in matrix form
- PRS should include the task or deliverable; the performance standard; the AQL; surveillance method; and the penalty/incentive.

PWS

The focus is on describing tasks in results-oriented terms and setting out the performance standards for each task.

It is a document describing the minimum requirements for performance of tasks under a contract & standards of performance for determining if the requirements have been met.

Evaluation Analysis

The foundation for the QAP

- Establishes appropriate surveillance methods
- Establishes possible performance measures

Addresses the following concerns:

- What tasks will you monitor?
- What surveillance methods are appropriate?
- What do you measure to ensure successful performance?

Surveillance Methods

- 100% Inspection which is INCREDIBLY expensive to do
- Random or stratified sampling
- Periodic inspecting or planned sampling
- Customer feedback, but be cautioned: customers tend to complain when they are dissatisfied, not when they are happy!

What do you measure?

Cost savings

- Cost per labor hour
- Variance from estimate

Efficiency

- Quality/time
- Milestones achieved
- Work accomplished per hour

Effectiveness

Ways to Measure

Simple v. comprehensive
Quantitative v. qualitative
Objective v. subjective
Progress v. performance
Process v. results

Cost Estimate

Estimate workload

Use the marketplace as a baseline

Cost estimate will be used to –

- Prepare an independent government estimate
- Evaluate proposals
- Determine baseline for performance incentives

What Contract Type is Right?

Order of Preference

- Firm fixed-price performance based contract
- Performance based and not fixed-price
- Contract that is not performance based

Consider converting historically acquired services from cost type to firm fixed-price

Consider hybrid contracts with both cost and fixed-price tasks

Monetary Incentives

Fixed-price incentive contracts

- Fixed-price incentive (firm target)
- Fixed-price incentive (successive targets)

Fixed-price contracts with award fees

Cost-reimbursement incentive contracts

- Cost-plus-incentive-fee
- Cost-plus-award-fee

Important Points to Ponder

- Link mission-related performance goals with objectives
- In the job analysis, thoroughly examine the government's requirements, the tasks and outputs the contractor must deliver and the evaluation process
- Work analysis yields a comprehensive list of tasks to meet the stated requirement

More Points to Ponder

- Performance analysis should determine the associated performance standards and acceptable quality levels for each task and the incentives as appropriate
- Evaluation analysis develops appropriate surveillance measures and methods to determine whether each standard has been met

Points to Ponder

- Cost estimate allows the acquisition team to judge the value of performance against predicted costs
- Statute mandates the use of fixed-price contracts wherever possible, but PBSC methods can be incorporated into any contract type except Level-of-Effort